

OPEN MEETING



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ORIGINAL

MEMORANDUM

Arizona Corporation Commission

DOCKETED

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TO: THE COMMISSION

FROM: Thomas M. Broderick
Director
Utilities Division

DOCKETED BY

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AZ CORP COMMISSION
DOCKET CONTROL

DATE: February 18, 2016

RE: IN THE MATTER OF THE APPLICATION OF UNS ELECTRIC, INC. FOR APPROVAL OF AN ACCOUNTING ORDER IN CONNECTION WITH THE ACQUISITION OF UP TO 25 PERCENT INTEREST IN GILA RIVER POWER PLANT UNIT 3 (DOCKET NO. E-04204A-13-0476)

STAFF RESPONSE TO COMPANY TIME EXTENSION AND CAP MODIFICATION REQUEST

INTRODUCTION

In Decision No. 74911, dated January 21, 2015, UNS Electric, Inc. ("UNSE" or "Company") was granted an accounting deferral by the Arizona Corporation Commission ("Commission") that allowed the Company to defer certain non-fuel costs related to the purchase of a 25 percent share of the Gila River Power Plant Unit 3 until April 30, 2016, that otherwise would have had a negative impact on the Company's income statement results and bond rating. Short term fuel and purchased power savings were allowed to be deferred until the date new rates go into effect following UNSE's next rate case.

On December 18, 2015, the Company filed a request to extend the cost deferral period from April 30, 2016 to the date that new rates go into effect in the pending UNSE rate case (Docket No. E-04204A-15-0142), and that the cap of \$10.5 million on the deferred non-fuel costs be modified to match the amount of deferred savings. UNSE now estimates that the accrued deferred savings will be approximately \$8.5 million as of April 30, 2016, and approximately \$11.3 million by July 30, 2016.

Decision No. 74911 contemplated that the Company would have new rates in place by May 1, 2016, at which time the Commission would have determined an appropriate amortization period for the Company to recover the deferred non-fuel costs as offset by the deferred savings. Since the referenced rate case was not filed until May 5, 2015, the decision in that case will not be effective until after the expiration of the cost deferral (Docket No. E-04204A-15-0142). Hence, a time extension is necessary to achieve the intent to synchronize both the cost and savings deferrals.

STAFF ANALYSIS

Staff reviewed confidential Schedules A and B in the most current monthly report provided to Staff by the Company on February 5, 2016. These schedules contain the Company's tracking of

the actual deferred non-fuel costs and savings for 2015. Based on the information in these schedules and additional information provided to Staff by the Company to support the updated estimates of the deferred savings, Staff has determined that the Company's estimates are reasonable and Staff supports the request to remove the cap of \$10.5 million on deferred costs and allow the Company to defer costs in an amount up to the deferred savings to the effective date of the rates that will be established in the pending rate case.

STAFF RECOMMENDATION

Staff recommends approving the Company's request that the accounting order in Decision No. 74911 be modified to extend the accrual period of the authorized deferred non-fuel costs to coincide with the date that new rates go into effect in the pending rate case.

Staff recommends that the hard cap on deferred costs be removed and that the amount of deferred non-fuel costs be allowed up to, but not in excess of, the deferred savings through the time extension period.



Thomas M. Broderick
Director
Utilities Division

TMB:BAB:red\CHH

Originator: Briton Baxter

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 DOUG LITTLE

Chairman

3 BOB STUMP

Commissioner

4 BOB BURNS

Commissioner

5 TOM FORESE

Commissioner

6 ANDY TOBIN

Commissioner

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8 IN THE MATTER OF THE APPLICATION
9 OF UNS ELECTRIC, INC. FOR APPROVAL
10 OF AN ACCOUNTING ORDER IN
11 CONNECTION WITH THE ACQUISITION
12 OF UP TO A 25% INTEREST IN GILA
13 RIVER POWER PLANT UNIT 3 (DOCKET
14 NO. E-04204A-13-0476)

DOCKET NO. E-04204A-13-0476

DECISION NO. _____

ORDER

12 Open Meeting
13 March 2 and 3, 2016
14 Phoenix, Arizona

15 BY THE COMMISSION:

16 FINDINGS OF FACT

17 **Introduction**

18 1. In Decision No. 74911 (January 21, 2015), UNS Electric, Inc. ("UNSE" or
19 "Company") was granted an accounting deferral by the Arizona Corporation Commission
20 ("Commission") that allowed the Company to defer certain non-fuel costs related to the purchase of a
21 25 percent share of the Gila River Power Plant Unit 3 until April 30, 2016, that otherwise would have
22 had a negative impact on the Company's income statement results and bond rating. Short term fuel
23 and purchased power savings were allowed to be deferred until the date new rates go into effect
24 following UNSE's next rate case.

25 2. On December 18, 2015, UNSE filed with the Commission a request to extend the cost
26 deferral period from April 30, 2016 to the date that new rates go into effect in the pending UNSE rate
27 case (Docket No. E-04204A-15-0142) and that the cap of \$10.5 million on the deferred non-fuel costs
28 be modified to match the amount of deferred savings. UNSE now estimates that the accrued deferred

1 savings will be approximately \$8.5 million as of April 30, 2016, and approximately \$11.3 million by
2 July 30, 2016.

3 3. Decision No. 74911 contemplated that the Company would have new rates in place by
4 May 1, 2016, at which time the Commission would have determined an appropriate amortization
5 period for the Company to recover the deferred non-fuel costs as offset by the deferred savings.
6 Since the referenced rate case was not filed until May 5, 2015, the decision in that case will not be
7 effective until after the expiration of the cost deferral (Docket No. E-04204A-15-0142). Hence, a
8 time extension is necessary to achieve the intent to synchronize both the cost and savings deferrals.

9 **Staff Analysis**

10 4. Staff reviewed confidential Schedules A and B in the most current monthly report
11 provided to Staff by the Company on February 5, 2016. These schedules contain the Company's
12 tracking of the actual deferred non-fuel costs and savings for 2015. Based on the information in these
13 schedules and additional information provided to Staff by the Company to support the updated
14 estimates of the deferred savings, Staff has determined that the Company's estimates are reasonable
15 and Staff supports the request to remove the cap of \$10.5 million on deferred costs and allow the
16 Company to defer costs in an amount up to the deferred savings to the effective date of the rates that
17 will be established in the pending rate case.

18 **Conclusions and Recommendations**

19 5. Staff recommends approving the Company's request that the accounting order in
20 Decision No. 74911 be modified to extend the accrual period of the authorized deferred non-fuel
21 costs to coincide with the date that new rates go into effect in the pending rate case.

22 6. Staff recommends that the hard cap on deferred costs be removed and that the
23 amount of deferred non-fuel costs be allowed to, but not in excess of, the deferred savings through
24 the time extension period.

25 7. Staff's recommendations are reasonable and should be adopted.

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CONCLUSIONS OF LAW

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2 1. UNS Electric, Inc. is a public service corporation within the meaning of Article XV of
3 the Arizona Constitution and A.R.S. §§ 40-250 and 40-252.

4 2. The Commission has jurisdiction over UNS Electric, Inc. and the subject matter of the
5 application.

6 3. Approval of the proposed time extension and removal of the cap is consistent with the
7 Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable
8 case law.

9 4. It is in the public interest to approve UNS Electric, Inc.'s request as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that the deferral period be extended from April 1, 2016, to the effective date of the new rates to be established in the current UNS Electric, Inc. rate case (Docket No. E-04204A-15-0142).

IT IS FURTHER ORDERED that the limitation on the deferral of costs to \$10.5 million be removed and that the amount of deferred non-fuel costs be allowed up to the amount of deferred savings through the time extension period in the rate case.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2016.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

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1 SERVICE LIST FOR: UNS Electric, Inc.
2 DOCKET NO. E-04204A-13-0476

3
4 Mr. Michael W. Patten
5 Roshka DeWulf & Patten, PLC
6 One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

Mr. Dwight Nodes
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

7 COASH & COASH
8 1802 North 7th Street
Phoenix, Arizona 85006

9 Mr. Daniel Pozefsky
10 RUCO
11 1110 West Washington Street, Suite 220
Phoenix, Arizona 85007

12 Mr. Thomas Mumaw
13 Ms. Melissa Krueger
14 Pinnacle West Capital Corporation
PO Box 53999, MS 8695
Phoenix, Arizona 85072

15 Ms. Meghan Gabel
16 Pinnacle West Capital Corporation
17 PO Box 53999, MS 8695
Phoenix, Arizona 85072

18 Mr. Bradley Carroll
19 Ms. Kimberly A. Ruht
20 88 East Broadway Boulevard
P.O. Box 711, HQE910
21 Tucson, Arizona 85701

22 Mr. Thomas M. Broderick
23 Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
24 Phoenix, Arizona 85007

25 Ms. Janice Alward
26 Chief Legal Counsel, Legal Division
Arizona Corporation Commission
27 1200 West Washington Street
Phoenix, Arizona 85007
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